1964, three-fifths in 1966, and all in 1969.

Our commercial agricultural trade surplus, which excludes exports under Government-financed programs, reached a peak of $1 billion in 1966. In 1960, this balance was a deficit of $436 million. Because of the decrease in exports and the sharp gain in imports, the commercial balance declined to a surplus of $605 million in 1967 and to a deficit of $129 million in 1969.

Besides the commercial trade, the United States obtains certain benefits from agricultural exports under the Food for Peace program.

These benefits include the foreign currencies that are used to defray U.S. Government expenses abroad and repayment made with interest on long-term dollar credit sales of our farm products.

The dollar returns and savings on noncommercial exports amounted to $360 million in 1969, up slightly from the $314 million in 1968, but up substantially from the $184 million in 1966.

Overall contribution of agricultural exports to the balance of payments (commercial exports and the dollar returns and savings on noncommercial exports) was $5.2 billion in 1969. After deducting agricultural imports, the net contribution was $231 million in 1969. Agriculture's net contribution reached a peak of $1.2 billion in 1966.

The future of world agricultural trade depends upon active cooperation among the major producing and consuming countries.

For our part, we must be willing to import in greater volume than in the past those commodities that can be produced more cheaply abroad. At the same time, we must be permitted access to the major world markets and the opportunity to expand our exports of products such as grains, soybeans, and animal products for which we have a high comparative advantage. Such unrestricted trade would add long-run growth to trading nations.

SPECIAL TRADE ARRANGEMENTS

DESPITE SUBSTANTIAL PROGRESS toward trade liberalization in a series of tariff negotiations since World War II, many policies have been adopted by nations, both individually and in groups, that interfere with the flow of trade among the countries of the world. Trade in agricultural products has been especially susceptible to interference from protectionist policies.

The basic idea of free trade is that every individual area or nation should specialize in what it can produce most efficiently and trade with others for products that can be produced more efficiently elsewhere. In this way, everyone will have more goods and services than if each tries to produce a little of everything.

Recognition of the mutual benefits from freer trade has motivated countries of the free world to hold several multilateral conferences to negotiate reductions in trade barriers. These have taken place under rules of the General Agreement on Tariffs and Trade (GATT), an international agreement that came into force on Jan. 1, 1948.

Six major conferences have been held. The latest and most comprehensive was the Kennedy Round concluded in 1967. In the Kennedy Round, the need for expanding trade opportunities for agriculture was given considerable emphasis. However, the problems encountered led to delay of substantive negotiating sessions in agriculture until near the end of the talks

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and no fundamental changes in access to markets or in the national farm policies were achieved. As a result, there was only modest progress toward liberalizing trade in farm products.

Efforts to remove trade restrictions and encourage trade expansion have been more successful for industrial than for agricultural products. Most countries provide some measure of income protection for agriculture through systems of price supports. These are frequently reinforced by extensive export subsidies and special import restrictions such as minimum import price schemes, variable levies, quotas, and other nontariff barriers that have been difficult to modify through international bargaining.

One development that has had an important impact on world trade and trade patterns for both industrial and agricultural products has been the emergence of regional economic organizations.

The most highly developed example of a cooperative effort among countries in economic matters is the European Economic Community (EEC). It was established through a treaty signed in Rome on March 25, 1957 by West Germany, France, Italy, the Netherlands, Belgium, and Luxembourg, and entered into force on Jan. 1, 1958.

The six countries agreed to create a customs union through progressive elimination of trade barriers between members, with concurrent adjustments in national duty rates to achieve a common tariff schedule for the whole EEC on all goods imported from nonmember countries.

Besides the free movement of goods, the Rome Treaty provides for the unrestricted movement of labor and capital from one country to another and a harmonization of economic policies to permit the whole Community to function as an economic unit.

To EEC industry, integration of the six national markets offered increased opportunities to develop mass production and improve international competitiveness. Problems encountered in merging the agricultural markets of the six differed greatly from those in merging their industrial markets.

Each of the member states had developed comprehensive national policies for agricultural support designed to expand domestic production and maintain incomes to family size farms. The differences in national policies and the wide variation in agricultural prices between the countries required that more extensive measures be adopted for integrating this sector.

The method chosen was to develop a Common Agricultural Policy (CAP) spelled out in a series of commodity regulations governing support measures and trade rules. A prominent role is assigned to import measures which are reinforced by internal support programs where they are considered necessary and workable.

Regulations covering individual commodity or commodity groups differ from one another as dictated by conditions of production and marketing, but most have certain common characteristics. The most pervasive characteristic is reliance on a minimum import price, and some form of variable levy to raise the price of imports to this minimum and thus completely insulate the domestic market from lower world prices. The regulations provide for export subsidies to permit sales at competitive prices in world markets.

The result is a separation of the internal market, where trade is relatively unrestricted, from the world market with a linkage provided by variable import levies and export subsidies.

The precise nature of the variable levy varies among commodities. There are differences in frequency of adjustment and in procedures used for calculation. For some products the levies are the sole import measure, while for others they supplement duties prescribed by the common tariff schedule. In all cases arbitrary computations are involved that provide opportunities for padding the levies and increasing the degree of protectionism.

Internal support measures consist mainly of government purchases at intervention prices set at levels to prevent market prices from falling substantially below the established price objectives.

Grains, dairy products, and sugar have accounted for the bulk of the purchases by intervention agencies. Beef, pork, rice, fruits, and vegetables are also eligible for intervention or support purchases. Producer subsidies or deficiency payments are important for vegetable fats and oils, and are also used to support durum wheat prices.

The European Agricultural Guidance and Guarantee Fund was set up by the Community to provide for common financing of programs supporting agriculture.

Import protection and the production incentive of high prices without production controls have reduced Community imports for many commodities. Increases in output have led in recent years to a larger part of their food consumption requirements being produced domestically.

Some commodities, especially dairy products and soft wheat, are now in surplus and the Community has been exporting large quantities of them with the use of export subsidies. These subsidies affect the position of other exporting nations, who react by expanding their own subsidy systems. Importing countries having some home production of their own are under pressure to increase the level of import protection in their markets.

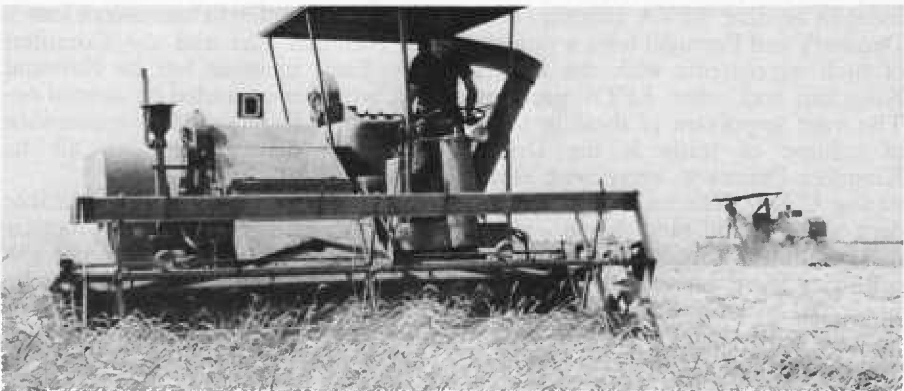
Due to the elimination of barriers to trade between members, the level of intra-Community trade in agricultural products has grown at a faster rate than that of trade with third countries. Imports from Community sources in 1968 were over 200 percent above the average for 1958–60 while imports from outside the area increased by 41 percent.

The European Community is the largest foreign market for U.S. farm products and for several years has accounted for nearly a fourth of total U.S. agricultural exports. After 1958, our agricultural exports to the EEC increased annually, almost without interruption, to a peak of $1.6 billion in 1966. Much of the growth was due to heavy demand for feed grains and oilseeds to support expanding livestock production.

Since 1966 EEC grain production has been substantially above previous levels, and grain imports have been correspondingly reduced. Sales of U.S. farm products declined to $1.3 billion in 1969, some 19 percent below the peak and the lowest level since 1963.

The European Free Trade Association (EFTA) came into being on May 3, 1960. Original members were

Combines harvesting a bumper wheat crop in France.



the United Kingdom, Denmark, Sweden, Norway, Austria, Switzerland, and Portugal. Finland became an associate member in 1961 and Iceland a full member in 1970.

Although its purpose, like that of the EEC, is to facilitate trade and promote closer economic cooperation among members, the institutional machinery in EFTA is much simpler and common rules are fewer and less elaborate.

To achieve a free trade area, each member has progressively eliminated its duties and quotas on industrial products of other member countries, while retaining its own tariff levels against outside countries. There are no provisions for progressive harmonization of national economic policies, although measures to improve coordination may be developed in the future.

Tariff reductions on most industrial goods began in July 1960 for the seven full members; these tariffs were eliminated on Dec. 31, 1966. Most agricultural products are excluded.

However, the Association does seek to expand trade in agricultural products so as to provide reasonable reciprocity to those member states whose economies are heavily dependent on agricultural exports, particularly Denmark and Portugal.

The most common method of promoting agricultural trade is through bilateral agreements under which specific farm exports of one member enjoy duty-free entry or other special treatment in another EFTA country. Both Denmark and Portugal have a number of such agreements with the United Kingdom and other EFTA partners. The most important of these in terms of volume of trade is the United Kingdom-Denmark agreement eliminating U.K. tariffs on Danish bacon, canned pork, and blue cheese.

Agricultural imports into the EFTA countries have increased moderately since 1961. A substantial portion of the increase is accounted for by an expansion of trade among the members. Imports from the United States have fluctuated considerably but have generally been above the level of 1961. In 1968, however, they dropped to the lowest level since 1959 and declined again in 1969.

The Latin American Free Trade Association (LAFTA) was established by the Montevideo Treaty signed on Feb. 18, 1960. Present members are Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela.

As in other regional trade groups, members of LAFTA seek to develop one large market in the area to replace smaller isolated country markets. This is to be accomplished by gradually removing trade restrictions among the countries. The expanded market is expected to encourage building of larger plants that can produce goods more economically and thus make them available to consumers at lower cost. Each country maintains its own trade policies toward countries outside LAFTA.

The Montevideo Treaty provides for removal of all trade restrictions among LAFTA members by 1973. However, unlike procedures in the EEC and EFTA, no automatic or across-the-board reductions are scheduled.

There is a schedule for the general levels of liberalization to be achieved at specified intervals, but the products included and the extent of the reductions for each product are determined in a series of negotiations among members.

Negotiations in LAFTA are handled through two different concessions lists—the National List and the Common List. Each member has its National List, which is expanded by annual negotiations. It shows the concessions given by that country to all its partners.

A single Common List, applicable to all members, contains the products that are to move freely among the member countries at the end of the transition period. It was to have been developed through four successive rounds of multilateral negotiations at 3-year intervals. Agreement was

reached on the first stage in 1964 but the second round, scheduled to be negotiated in 1967, has not been completed.

In late 1969, LAFTA members agreed to postpone the end of the transition period from 1973 to 1980, reduce the rate of annual reductions on the National Lists and postpone indefinitely further additions to and applications of the Common List.

In developing these concessions lists, no distinction is made between the methods of handling agricultural and industrial items. However, LAFTA has considered establishing norms regulating agricultural trade after the transition period. As proposed, these would provide for exceptions to be made with respect to agricultural products and would allow members to continue a number of restrictive policies to protect domestic agriculture beyond the date at which the free trade area was scheduled to be fully implemented.

Intra-LAFTA trade has increased more rapidly since 1961 than trade with countries outside the area. However, member countries still get about half their agricultural imports from non-LAFTA suppliers. The United States ranks first among these suppliers.

About half of the U.S. agricultural exports to LAFTA has moved under P.L. 480 programs. Although trade preferences have adversely affected exports of some farm commodities, total agricultural exports to the area have increased substantially since the formation of LAFTA. In 1969, the total value was nearly $360 million, about 6 percent of our total agricultural exports.

The Central American Common Market (CACM) consists of five members—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Established in 1961 by the General Treaty on Central American Economic Integration, it has had its present membership since 1962.

Central American countries had previously negotiated numerous bilateral and mutilateral agreements which were consolidated in the Treaty. In addition, the Treaty established fixed schedules for moving toward a common external tariff and the elimination of all duties on products originating within the region except for items on a special list.

As in the Latin American Free Trade Association, internal trade liberalization is intended to promote industrial development by providing enlarged regional markets instead of single country markets while retaining protection against competition from outside the region. With few exceptions, imports from outside the Central American Common Market are now subject to the same duties in all member states, and most domestically produced goods move freely between members.

Regional programs in CACM have mainly been oriented toward stimulating industrial growth. Elements of an agricultural policy have been emerging which provide for stabilization and coordination rather than a centrally directed common policy.

The Protocol of Basic Grains covering corn, rice, sorghum, and beans is the major agreement affecting agriculture. It provides rules for regulating intraregional and international trade of basic grains. National programs of production and supply are formulated by member countries. These programs are to be coordinated according to needs of the region to arrive at a uniform policy regulating trade of the basic grains.

The Protocol provides that all member country surpluses be used before grain is imported from non-CACM countries, and that all member country import requirements be satisfied before grain is exported from the area. Duties are used to maintain import prices at a level at least as high as the importing country's domestic prices.

Trade among members of the Central American Common Market has increased substantially. The greatest expansion has occurred in nonagricultural trade, but intra-CACM movement of farm products has also risen.

U.S. agricultural exports to the CACM increased moderately after 1961, reaching $45 million in 1968, but declined $38 million in 1969.

The four regional groups described have the most ambitious programs for economic integration. This process is continuing. The United Kingdom and several other EFTA countries have applied for membership in the EEC. The LAFTA and CACM countries have agreed to work toward combining both areas into a Latin American Common Market. In addition, other groups of countries in various parts of the world have formed free trade areas or custom unions.

There are also several instances of arrangements that provide for preferential treatment for trade among countries without necessarily involving eventual free trade. The European Economic Community has developed several of these arrangements with countries beyond its borders.

Greece and Turkey are associate members with products from these countries receiving preferential treatment. It is intended that both will ultimately become full members of the Community.

The EEC also has a preferential trading arrangement with 18 African states and Associated Overseas Countries. These countries were former colonies or had other special relationships with France, Belgium, or Italy. With the formation of the EEC, a Convention of Association was devised to replace the former arrangements with individual European countries. A protected market in the EEC for certain commodities and a Community program for providing development funds were established.

In addition, the EEC has granted preferences to several of its trading partners in the Mediterranean area.

Members of the British Commonwealth, along with Ireland and South Africa, have for many years granted each other certain tariff concessions.

These Commonwealth preferences have declined in importance in recent years due to rising prices and the results of GATT negotiations. However, they continue the practice of discriminatory treatment on a large number of agricultural as well as nonagricultural products.

An international commodity agreement is another type of special trade arrangement. This is an undertaking by a group of countries to stabilize trade, supplies, and prices of a commodity. It is usually open to all interested countries. Two major arrangements presently in force are the International Grains Arrangement and the International Coffee Agreement.

The 1967 International Grains Arrangement (IGA) entered into force on July 1, 1968, for a 3-year period. It replaced the International Wheat Agreement (IWA) which had provided rules for world trade in wheat for 18 years. The IGA consists of two parts: a Wheat Trade Convention and a Food Aid Convention.

Minimum and maximum prices for 14 major wheats moving in world trade are set by the Wheat Trade Convention. For U.S. wheats, the minimum prices are generally about 23 cents per bushel higher than the minimum under the IWA. A range of 40 cents per bushel was set to permit prices to fluctuate in response to supply and demand.

The Food Aid Convention contains provisions not found in the IWA. It provides for a coordinated effort by developed countries to supply food aid to less developed countries on a regular and continuing basis.

Members agree to provide a total of 4.5 million metric tons of grain each year. Both exporting and importing countries participate. The U.S. commitment is for nearly 1.9 million tons, or 42 percent of the total. The European Economic Community contributes a million tons, with other members supplying lesser amounts.

Contributions may be in the form of wheat, coarse grains suitable for human consumption, or an equivalent in funds for purchase of these grains.

Liberal supplies of wheat in the world led to problems in complying

with the minimum price provisions soon after the Arrangement came into force. Despite numerous efforts to correct the situation, member countries have been unable to hold prices above the minimum levels.

The present International Coffee Agreement went into effect in 1968. Like the preceding 1962 Agreement, its major purpose is to achieve a reasonable long-term balance between supply and demand to avoid excessive price fluctuations. Over 98 percent of world trade in coffee is covered by the Agreement.

Basic export quotas have been determined for each member country to replace those in effect since 1962. An effective world quota is established annually and is prorated among the members in proportion to each country's share of the basic export quota.

Coffee traded in the world markets is differentiated into four different types. Price ranges for each type are set at the beginning of every marketing year. If for any type the price moves above the ceiling or below the floor, quotas for that type are adjusted in an effort to bring prices back within the range.

Several new features were added that were not in the 1962 Agreement.

Specific national production goals were established for each exporting member to attempt to insure production adjustments in each country to bring supplies into line with the needs for exports and working stocks by 1973, the last year of application of the 1968 Agreement.

Government export or reexport aid that discriminates in favor of processed (soluble) coffee over green coffee is prohibited. This measure was primarily the result of price competition between exports of Brazilian soluble coffee and unroasted beans.

Another important new feature is a Diversification Fund that provides technical and financial assistance to member countries for production adjustment programs. Producers receive help to convert land from production of coffee to other agricultural products for which there is greater need. The Fund is financed by mandatory payments from exporting countries and voluntary contributions from importing countries.

Sugar has also been subject to some form of international agreement for many years. However, these agreements have covered only about a third of world trade in sugar.

An International Sugar Agreement is now in effect, but the United States is not a member. Approximately two-thirds of the world trade is accounted for by U.S. imports under assigned foreign country quotas, and imports by the United Kingdom at negotiated prices under the Commonwealth Sugar Agreement.

A major objective of regional country groupings is to stimulate economic growth within the regions. Over a long period of time this is expected to increase the demand for commodities and eventually contribute to an expansion of world trade. However, in the early years of their development, regional groups frequently adopt measures that disrupt established trade patterns and interfere with trade liberalization efforts. There is a danger that the restrictions imposed may become so firmly established that the hoped-for benefits to world trade may not materialize.

Of course, individual countries also have protectionist trade policies. In some cases they may be more restrictive than those of the regional associations. Whatever the trading entity, there are several forms of barriers that can be imposed.

Import duties or tariffs probably remain the most common form of trade barrier, particularly for industrial products.

These may be expressed in terms of a given amount per unit of a product, referred to as a specific duty, or in terms of a given percentage of the value of the imported product, or ad valorem duty.

This type of barrier has received the most attention in trade negotiations and the reduction in duties has been

the major form of trade liberalization achieved.

Other types of import controls have been much more resistant to reduction or removal by negotiation. They may take many forms. Quantitative restrictions in the form of import quotas or embargoes are very effective in limiting or preventing trade. They are usually implemented by requiring import licenses that are granted only selectively.

Variable levies and gate price systems have become more common in recent years. Instead of providing a uniform and known absolute or percentage margin of protection between world and domestic prices, they are adjusted to bring the price of imports up to established levels. As noted previously, these measures are used extensively by the European Economic Community.

Mixing regulations are established by some countries to assure that all domestic production is utilized. They usually require that a minimum percentage of the ingredients in such products as flour and tobacco products come from domestic sources.

Many countries have government or semi-public agencies that are given the exclusive right to import certain products.

These monopolies may arbitrarily determine when imports are allowed and under what conditions.

Health and sanitary regulations are normally imposed to provide legitimate protection against introduction of products that may be hazardous to human, animal, or plant health in the importing countries. However, in some instances they may be used to limit imports arbitrarily or to discriminate as to source.

These are some of the more common types of measures used by countries to discourage or prevent imports. Countries may also attempt to aggressively expand exports and thereby interfere with normal trade flows. The most common practice is the payment of subsidies on exports.

Export subsidies cause problems for importing countries by abnormally depressing import prices. Their agricultural programs may be jeopardized unless they adopt additional barriers to imports.

Competition among exporters may become competition among national treasuries with little regard to which countries can produce the products most efficiently.

Many of the difficulties encountered in reducing restrictions on trade in agricultural products stem from conflicts between internal agricultural support systems and liberal import regimes.

Programs supporting domestic agricultural prices above world prices exist in most importing countries and also in many exporting countries. Agricultural incomes are usually below those of industrial workers, and the governments attempt to reduce the disparity by supporting agricultural prices.

A rapid rate of technological advance in agriculture is stimulated by the price assurances given through these programs.

New and improved cultural and husbandry practices are adopted more rapidly, increased fertilizer consumption is encouraged, and new crop varieties get widespread acceptance more quickly. As a result, production may increase more rapidly than the domestic requirements and further government action is required to maintain established price levels and to avoid excessive stocks.

For importing countries, this often leads to further restrictions on imports to protect domestic prices from the pressure of foreign supplies.

Both traditional exporting countries and others with surpluses attempt to expand or develop export markets by paying export subsidies.

The basic conflict between domestic agricultural and trade expansion policies has also been a problem in the development of the regional trade groupings discussed. Only the European Economic Community has developed a common agricultural policy

with a replacement of many national programs by overall Community programs. Many serious obstacles have had to be overcome. In order to get agreement, the policies adopted have often been as restrictive to trade as the most restrictive existing national policy.

As previously mentioned, the European Free Trade Association has made no attempt to eliminate all restrictions on trade in agricultural products because of the difficulties foreseen in reconciling national policies with free trade.

The Montevideo Treaty provides that agricultural products be included with others in the liberalization process within the Latin American Free Trade Association.

However, the appearance of many problems has led to the consideration of norms for agricultural trade recognizing that exceptions will have to be made for many agricultural products beyond the end of the transition period.

The Central American Common Market has many agricultural products on its special list of products exempted from the liberalization schedule. Coordination of national policies on the basic grains is provided for, but trade is regulated by the price support agencies in each country.

Future expansion of agricultural trade opportunities requires that ways be found to (1) improve access to importing countries, (2) achieve more rational export policies among exporters, and (3) obtain reasonable and more stable world prices.

There is general recognition of the relationship between domestic agricultural policies and trade restrictions. Policies of both regional trade groups and individual countries must be modified.

Careful and lengthy preparations will be required to identify areas where adjustments can be made in domestic policies that will permit easing trade restrictions while retaining measures to support domestic agriculture.

A LOOK INSIDE DEVELOPMENTS IN EAST-WEST FARM TRADE

THE CENTRALLY PLANNED economies—the Soviet Union, Eastern Europe, and Red China—had a major impact on world agricultural markets during the decade of the 1960's which generated considerably more interest in their agricultural trade than previously.

Immediate cause of this interest was the massive movements of these countries into and out of the grain market, especially the wheat market, during 1963–66. China's gross wheat imports rose from 2.6 million tons in 1961 to 4.4 million tons in 1963, and reached 6.4 million tons in 1966. The Soviet Union's gross wheat imports were negligible in 1962, but rose to 3 million tons in 1963, and reached 7.6 million tons in 1966.

Imports by the East European countries did not increase as significantly, but they were shifted to Western markets as the Soviet Union's wheat supplies dwindled.

It would be hard to exaggerate the impact of these purchases on the major world grain exporting countries. Coinciding with large imports of wheat and grain by India and Pakistan, they have virtually transformed the world wheat picture from one of persistent, troublesome surpluses to one of a dangerously rapid drawdown in stocks.

Production was expanded in the

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